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ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS
May 1989

Dr. Donald Ratajczak, Director
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WHY ARE INTEREST RATES FALLING, ANYWAY?

Obviously, falling interest rates will lower the financing costs of conducting business. It also should increase demand for housing, consumer durables and other consumables, all other things equal. Of course, if employment and earning prospects are declining, all other things will not be equal and those activities may continue to fall. Thus, a decline in interest rates cannot always be construed as beneficial to the economy, for it may actually reflect developing undersirable conditions. Should we cheer or jeer because interest rates are tumbling down?

Clearly, if the Federal Reserve is responsible for the decline in interest rates, the shift in monetary policy would be a near-term stimulant to the economy. Until the additional economic activity generated by this stimulant led to increasing inflation, the result probably should be cheered. However, the Federal Reserve is not leading interest rates downward. The yield curve is significantly inverted. This alone suggests that substantial liquidity restraints are present in the system. Also, the strong dollar, at least partially is the result of strong money growth in Germany and Japan relative to the United States. Furthermore, the relationship between federal funds rates and the commercial paper rate suggests that credit market demand conditions rather than Federal Reserve monetary conditions are responsible for any dip in short-term interest rates. Indeed, if the Fed continues to drag its feet, it may preside over several months of declining monetary aggregates. This, in turn, would lead to higher dollar values against other currencies and an interest rate that declines more slowly than what would be necessary to re-establish equilibrium in the credit markets. As a result, the economy could deteriorate swiftly.

COLLEGE OF BUSINESS ADMINISTRATION
GEORGIA STATE UNIVERSITY
UNIVERSITY PLAZA
ATLANTA, GEORGIA 30303-3083
404-651-3282

Clearly, the Federal Reserve is not responsible for the decline in short-term interest rates at this time. Rather, it is a cause of higher short-term rates than should prevail.

Of course, foreign capital flows may also explain the dip in interest rates. Foreign investors have become confident that dollars will remain relatively scarce in comparison to yen and marks. This has resulted in a significant increase in the dollar's value, leading to substantial appreciation potential for foreign investors. Unquestionably, capital flows from abroad have been responsible both for the increase in stock market values and the significant rally in the government bond markets. Indeed, the fact that government securities, which foreign investors favor, have improved much more dramatically than corporate issues suggests that the foreign element is substantial.

Of course, foreign capital flows are mercurial. If the dollar starts sliding, they can flee as quickly as they came. To the extent that foreign capital flows are responsible for falling interest rates, that limits the degree to which interest rates ultimately can decline.

However, other information suggests that the economy is slowing. The purchasing managers' index fell below 50%, usually associated with the point at which an economy begins expanding. The industrial sector gave up 15,000 jobs in May while our estimates of industrial production show a modest decline for the month. In short, economic activity stagnated this month. This sluggish performance probably is responsible for most of the interest rate declines. Moreover, as the economy is interest-insensitive, relatively small changes in credit market pressures can lead to significant declines in interest rates. Until the dollar begins weakening, interest rates could fall swiftly. Our current projections suggest that the prime rate will reach 10% by next June. More substantial declines would have been projected except for the adverse effects once interest rate declines begin to reduce currency values.

Determining that most of the interest rate decline is the result of economic weakness still does not provide any information about the cause of that weakness. However, GNP revisions for the first quarter provide a significant clue.

According to the GNP report, economic activity was revised downward sharply mostly as a result of a significant decline in inventory investments. That downward revision in inventory accumulations was caused by two factors. First, rising industrial prices, especially petroleum-based materials, caused a higher inventory adjustment than previously anticipated. As a result, actual inventory investments reflected lower accumulations of materials and goods than originally thought. Because those material prices peaked in April, the IVA is now declining. The same quantity of inventories now can be accumulated at a lower finance cost than previously.

Second, manufacturers apparently are beginning to sense that future sales will not be up to previous anticipations. As a result, they are reducing their production schedules in order to adjust inventories to those lower projections. Indeed, most of the inventory gains have been the result of goods in process,

usually aircraft, or in automobiles. In the automobile industry, producers thought financing incentives would be more favorably greeted than actually occurred. The result has been an overhang of inventories that now are being adjusted downward with the aid of production curtailments. This minor inventory adjustment probably will run its course during the second quarter. Then, economic activity should rebound modestly in the second half of the year before excess inventories again are accumulated. A dip in economic activity still appears likely early next year.

Nevertheless, a soft landing now appears more likely than previously. In order to achieve such an event, the Federal Reserve would need to significantly increase money growth in the next few months. This would lead to sharper interest rate declines, at least on the short-end of the yield curve. Also, the dollar would fall more significantly. These two events would stimulate industrial activity and prevent any further curtailment of industrial production. However, the Federal Reserve appears to be following an interest rate target and is not likely to engage in such activity.

Quarterly Profile of GNP

	1989-1	1989-2	1989-3	1989-4	1990-1	1990-2	1989 Annual	1990 Annual
Real:	4.3	0.9	2.2	2.2	1.6	0.7	2.6	1.3
Price:	3.9	5.6	4.6	3.9	4.1	4.3	4.8	4.4
Nominal:	8.9	6.6	6.9	6.2	5.9	5.2	7.6	5.8

Monthly Statistical Highlights

	May 1989	June 1989	July 1989
Payroll Employment		+163,000	+332,000
Index of Hours Worked		+0.3%	+0.2%
Household Employment		+165,000	+315,000
Civilian Unemployment Rate		5.3%	5.2%
Personal Income	+0.4%	+0.4%	+0.6%
Savings Rate	5.6%	5.6%	5.7%
Personal Consumption	+0.6%	+0.4%	+0.5%
Retail Sales	+0.8%	-0.1%	+0.3%
Auto Sales	10.5*	10.0*	9.9*
Housing Starts	+2.4%	+1.0%	-0.4%
Housing Permits	-1.0%	+0.5%	-0.8%
Construction Expenditures	-0.3%	-0.4%	-0.4%
Business Inventories	+0.8%	+0.8%	+0.7%
Orders for Durable Goods	-0.3%	-0.9%	+0.2%
Orders - Nondefense Capital Goods	-3.1%	-0.5%	+0.2%
Industrial Production	-0.1%	+0.2%	+0.2%
CPI	+0.6%	+0.5%	+0.4%
PPI		+0.3%	+0.3%
Consumption Deflator	+0.5%	+0.5%	+0.4%
Leading Indicators	-0.6%	+0.2%	-0.4%
Currency Index		+2.1%	-2.1%
Equity Index		+3.8%	+1.0%
Real GNP (annual rate)	-0.3%	+3.6%	+0.9%
M1 (annual rate)	-12.3%	+4.4%	+10.5%
M2 (annual rate)	-3.6%	+6.1%	+7.6%

* auto sales in millions

Commentary

Employment - May's employment release showed weakness. Payroll employment increased only 101,000 while the workweek declined. The decline in the workweek probably reflects the bias that was generated in the previous month's survey. As a result, the index of hours worked fell 0.9%. More significantly, employment in manufacturing fell 15,000. This suggests that industrial production actually weakened during the month. Moreover, initial claims continued to creep up during May while the insured unemployment rate also rose modestly.

The one good factor in the report was virtually no growth in hourly earnings. During the last three months the hourly earnings index increased 3.8% at annual rates and is up 3.7% from a year ago. This suggests that wage inflation remains subdued. Normally, a shrinkage in both hours and employment growth

rates would suggest further weakness next month. However, if the hours purely reflect sampling bias, some rebound is possible in June.

Personal Income and Outlays - Excluding bonus payments in the automobile industry and one-time payments of social security, personal income would have increased 0.7% in April following a 0.6% gain in March. However, those factors which bloated the March gains led to a 0.4% April increase. Payroll reports suggest that there should be minimal growth in wage earnings during May. However, normal gains in tranfer and property income should provide some growth in personal income. An unusual spurt in tax collections led to no change in disposable income during April. This spurt appears to be a one-month event and could be associated with reversals of previous tax shelters. If so, a return to more normal tax liabilities and savings rates will develop.

The April measure of durable spending showed greater increases in auto activity than was contained in April retail sales. This suggests that the April retail sales figure will be revised upward. Our May estimates attempt to show what the actual levels of activity will be. Thus, an upward revision in April would lead to a lower gain in retail sales for May than currently reported. Auto sales are weakening slightly as the novelty of financing incentives is wearing thin.

Because of stronger housing activity as a result of declining interest rates than anticipated a month ago, durable goods sales are expected to be slightly stronger than originally projected. Nondurable sales also should be modestly stronger reflecting significant price gains for gasoline. Expenditures on services probably will not reach forecasted values as housing and educational services are growing slower than previously expected.

The surge in automobile purchases in April should generate some real growth in consumer spending for the second quarter. However, the rate of growth is down sharply from other quarters.

Construction - Housing starts in April reflected the housing permits of the previous month. The only surprise was slightly stronger activity for single-family units than would have been suggested. The sharp rebound in permits during April suggests that housing activity could rebound in May. Coupled with the decline in interest rates, the bottom in housing activity may have been reached. While no significant acceleration of housing activity is expected, gradual improvement in both single-family and multi-family activity should be anticipated. According to Department of Commerce estimates, the vacancy rates for rental units in the first quarter fell from 8.1% a year ago to 7.3%. While this still is historically high, apartment construction is growing more slowly than apartment occupancy. Soon, rental rates will begin accelerating, leading to an acceleration in the consumer services deflator. Then, improving apartment activity should be anticipated.

Expected weakness in nonresidential activity was heavily concentrated in shopping malls and other retail outlets. Industrial activity remains strong while office activity is stagnant. Further declines are anticipated in office activity before nonresidential construction bottoms out. However, the rate of

decline in construction activity should slow markedly and reach a low point before the end of this year. Public construction rebounded from the March dip, as expected. Moderate growth now should be anticipated in public construction over the next two years. Residential construction will not fundamentally bottom until the middle of summer as a result of the lags associated with housing starts. Moreover, a slight increase in the mix toward apartment units will prevent any significant liftoff of residential construction. Nevertheless, construction probably will reach a low point in August and begin a gradual improvement thereafter.

Declining site prices and constraints on wages has continued to restrict the growth in the construction deflator. As housing improves, however, site values may rise. In addition, wage concessions given by construction employees should diminish. Nevertheless, no significant acceleration is expected in the construction deflator.

Business Activity - Durable goods activity was stronger than anticipated as non-electrical machinery and primary metals rebounded to their February levels. Apparently, their dips in March were aberrations. Aircraft orders remain strong but were not significant contributors to growth. Defense orders actually declined following a one-month surge. Although more aircraft orders could push durable goods orders to new highs in the next month or so, some slowing is anticipated in orders for primary metals while transportation equipment other than aircraft should decline as auto sales incentives diminish. Thus, durable goods orders probably are peaking at the present time and should gradually diminish.

Nevertheless, the substantial backlogs that currently exist suggest a significant increase in capital shipments over the next year. According to the latest plant and equipment surveys, expenditures are expected to be up 6.5% after adjustment for inflation. Assuming slightly more than 3% for capital equipment prices, this means that shipments should grow just under double-digit levels. These estimates are broadly consistent with the shipments projections presented here.

Some of the sharp rebound in business inventories reflects higher prices for energy materials. Excluding those factors and the goods in process, business inventories actually are growing slowly. A rebound in inventories is anticipated, however, as sales activity picks up during the summer.

The rebound in industrial activity during April suggests that not all the employment gains were statistical flukes for that month. However, activity should decline in May with industrial materials showing significant weakness.

Prices - Composition factors have been significant in restraining price increases for consumer durables. However, increases in auto sales relative to other durables activities should lead to some acceleration in the consumer durables deflator during the summer months. Prices are currently growing sharply for consumer non-durables but are expected to slow early next year. Although rental rates should intensify in consumer services, transportation services probably will show slower price increases than previously anticipated. Moreover, reduced liability fees should moderate medical pricing. As a result,

the service price deflator is not expected to grow quite as rapidly as originally anticipated. This should result in a slightly more moderate increase in the consumption deflator and in the CPI than originally anticipated.

Miscellaneous - After higher oil prices finally are reflected in the merchandise trade balance, the strong dollar should aid the J effect for several more months. Indeed, the trade balances could be coming down again in the summer. However, the strong dollar probably will impact trade activity late this year and early next year. This, in turn, should lead to reductions in currency values. The dollar probably is nearing a peak, although further declines in interest rates probably would be necessary before that assumption could be firmly held.

The April rise in the leading indicators came after two monthly declines. However, enough information already is known to indicate that the indicators will be down in May. If orders fall significantly, the indicators could decline sharply. Weakness is coming from the workweek, sensitive prices, initial claims, and the inflation-adjusted money stock. Only the stock market is providing substantial strength at the present time.

Corporate profits were even weaker than anticipated during the first quarter. As a result, adjusted profits are lower than anticipated. A rebound is expected in profits during the summer as the IVA declines significantly from current levels. In addition, the decline in interest rates should reduce the interest recipient's share of capital's earnings. This allows for more equity growth. When these improved profit conditions are combined with anticipated declines in yields on government bonds, equity values perform nicely. Indeed, assuming that current values are appropriately reflecting current earnings and interest rate conditions, equity markets could go higher over the next year. However, the road should be bumpy with significant dips in the fall before new highs are generated early next year. Then, potential recessionary behavior again will reduce equity values.

Financial Markets

As mentioned in previous projections, sharp increases in household savings and temporary improvements in government deficits should have been sufficient to offset increased borrowing needs by the corporate sector. The only factor apparently preventing interest rates from declining was the reluctant foreign investor. When that foreign investor changed directions early this year, interest rates were set to decline. However, Federal Reserve restraint prevented short rates from adjusting. Therefore, all of the significant adjustment had to occur on the long side of the market.

The Federal Reserve remains reluctant to adjust interest rates downward. Commercial paper rates at the present time are leading the short rates down. As long as the Federal Reserve persists in lagging behind other short-term rates, long-term interest rates should continue trending downward. Of course, as the economy slows further, the Federal Reserve eventually will relent, allowing a significant drop in the federal funds rate. This will ultimately lead to a

significant decline in the prime rate. However, some plateau in interest rates should develop in the summer or late fall when inventories again are rebuilt. At that time, government borrowings will be intensifying while household savings rates probably will be dipping slightly. On balance, however, interest rates are trending downward. Indeed, declining short-term interest rates should be expected, causing further declines in long-term rates, until the federal funds rate catches up with the commercial paper rate. A strong buy signal for long-term securities should have been read when the commercial paper rates fell 20 basis points below the federal funds rates. As long as commercial paper rates remain significantly below the federal funds rate, the bond market rally will persist.

Equity Markets - Although loan demand must remain a cause of some concern, declining interest rates are almost always beneficial to financial institutions. In addition, the credit-sensitive securities, including home builders, should begin performing well. Foreigners will continue to buy the Dow and other big name stocks, but their flows into the financial markets should not persist too much longer. Therefore, the equity markets should begin rotating toward the second tier in high-growth stocks. Thus, financial institutions, interest-sensitive securities, and some technology considerations in the secondary market all could do well. Although our current formulas suggest that any stock market correction will be modest and could be delayed until the fall, my own inclination is to anticipate a more significant correction sooner than that. In any event, barring a significant forecasting error, equity values remain reasonable for long-term investors.

Until the dollar begins relenting, multi-national corporations should be avoided. In addition, the foreign investors probably are overpricing the Dow-based securities. This suggests that a rotation in the stock market should begin with small gains in the overall averages but significant potential for the less known issues.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	108065	107442	128.3	127.4	116711	116711	5.4	5.4	9.49	9.49
February	108341	107711	127.8	127.2	116853	116853	5.1	5.1	9.50	9.52
March	108512	107888	128.1	127.6	117136	117136	5.0	5.0	9.52	9.54
April	108695	108094	129.5	128.7	117226	117113	5.2	5.3	9.58	9.60
May	108820	108195	128.0	127.5	117363	117215	5.2	5.2	9.62	9.61
June	108946	108358*	128.5	127.9*	117502	117380*	5.1	5.3*	9.66	9.65*
July	109167	108690	128.9	128.2	117743	117695	5.1	5.2	9.70	9.69
August	109384	108906	129.3	128.4	117979	117907	5.0	5.2	9.74	9.72
September	109602	109207	129.7	128.7	118208	118203	5.0	5.1	9.78	9.76
October	109715	109508	129.5	129.0	118328	118502	5.0	5.0	9.82	9.80
November	109832	109800	129.7	129.3	118497	118803	5.1	5.0	9.86	9.83
December	109950	110025	129.9	129.5	118654	119068	5.0	5.0	9.90	9.86
January 1990	110106	110346	130.0	129.8	118827	119367	5.0	4.9	9.94	9.90
February	110303	110544	130.2	130.0	119012	119606	5.0	4.9	9.98	9.94
March	110501	110638	130.3	130.0	119296	119683	5.1	5.0	10.02	9.98
April	110605	110543	130.4	129.8	119337	119635	5.1	5.2	10.06	10.02
May	110636	110534	130.4	129.8	119305	119658	5.2	5.3	10.10	10.06
June	110640	110392	130.3	129.6	119324	119519	5.3	5.5	10.14	10.10

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	4.272	4.272	2.559	2.559	187.9	190.6	3.659	3.659	3.472	3.469
February	4.316	4.317	2.571	2.571	213.7	218.1	3.701	3.701	3.487	3.482
March	4.350	4.352	2.592	2.592	234.0	234.8	3.729	3.728	3.495	3.494
April	4.378	4.369	2.607	2.608	220.8	198.7	3.750	3.729	3.529	3.530
May	4.398	4.387*	2.619	2.605*	207.9	210.8*	3.765	3.762*	3.557	3.551*
June	4.420	4.405	2.631	2.625	206.2	211.9	3.781	3.776	3.575	3.564
July	4.450	4.431	2.649	2.644	214.2	215.1	3.814	3.798	3.600	3.583
August	4.481	4.452	2.667	2.657	211.5	206.7	3.834	3.815	3.623	3.608
September	4.511	4.481	2.685	2.676	218.0	214.9	3.855	3.840	3.637	3.625
October	4.534	4.509	2.699	2.694	219.3	218.3	3.875	3.864	3.656	3.646
November	4.554	4.533	2.709	2.709	221.5	218.0	3.894	3.884	3.673	3.666
December	4.573	4.557	2.719	2.723	226.3	218.7	3.916	3.905	3.690	3.686
January 1990	4.600	4.582	2.738	2.742	227.4	217.9	3.938	3.927	3.711	3.709
February	4.626	4.606	2.759	2.758	227.4	218.2	3.960	3.947	3.733	3.729
March	4.652	4.628	2.780	2.771	227.0	216.2	3.982	3.965	3.755	3.749
April	4.669	4.646	2.791	2.779	223.4	212.9	3.995	3.979	3.772	3.766
May	4.685	4.669	2.801	2.792	216.0	214.2	4.009	3.998	3.793	3.784
June	4.701	4.686	2.810	2.800	214.0	204.9	4.026	4.011	3.812	3.806

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	3367.8	3364.9	469.1	467.2	1088.9	1088.9	1809.8	1808.8	2634.1	2632.5
February	3383.2	3378.1	461.0	458.5	1093.9	1091.9	1828.4	1827.7	2641.0	2638.8
March	3390.3	3388.6	454.3	452.6	1098.4	1098.2	1837.6	1837.7	2629.4	2629.4
April	3424.2	3424.5	463.7	467.1	1110.3	1105.4	1850.2	1852.1	2642.1	2638.0
May	3451.8	3445.0*	468.5	464.4*	1121.2	1115.0*	1862.1	1865.6*	2651.1	2639.9*
June	3469.2	3457.3	467.6	458.5	1127.6	1122.5	1874.0	1876.3	2652.3	2636.9
July	3493.8	3475.5	470.3	457.5	1134.3	1128.9	1889.2	1889.1	2660.9	2641.0
August	3516.1	3500.3	473.9	464.7	1138.6	1134.2	1903.6	1901.4	2669.8	2651.7
September	3530.2	3516.6	469.4	463.8	1142.8	1137.5	1918.0	1915.3	2672.4	2654.7
October	3548.4	3536.7	470.6	465.2	1147.3	1143.7	1930.5	1927.8	2674.0	2661.1
November	3564.8	3556.4	469.0	467.7	1152.8	1148.1	1943.0	1940.6	2674.3	2668.0
December	3581.5	3576.1	467.7	469.3	1158.2	1153.3	1955.6	1953.5	2674.8	2672.9
January 1990	3602.4	3598.4	469.9	472.6	1163.6	1159.1	1968.9	1966.7	2680.4	2679.9
February	3624.0	3617.6	472.1	473.0	1169.7	1164.3	1982.2	1980.3	2688.4	2684.8
March	3645.6	3637.1	474.3	472.4	1175.8	1171.3	1995.5	1993.4	2694.5	2689.6
April	3662.2	3653.9	472.7	470.9	1180.2	1176.8	2009.3	2006.2	2694.8	2691.4
May	3683.2	3671.2	475.1	470.2	1183.5	1181.5	2024.6	2019.5	2696.3	2692.9
June	3701.7	3693.1	475.1	473.0	1186.7	1186.4	2039.9	2033.7	2698.0	2698.4

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	140.04	140.04	22.62	22.62	9.8	9.8	86.23	86.23	31.19	31.19
February	139.43	139.43	22.43	22.43	9.9	9.9	86.36	86.36	30.64	30.64
March	139.36	139.36	22.13	22.13	9.6	9.6	86.76	86.76	30.48	30.48
April	139.93	139.93	21.83	21.83	10.8	10.8	87.30	87.30	30.81	30.81
May	141.36	141.02*	22.34	22.06*	10.0	10.5*	88.16	88.16*	30.86	30.80*
June	141.74	140.93	22.54	22.15	9.6	10.0	88.66	88.75	30.54	30.03
July	142.58	141.33	22.47	22.06	9.8	9.9	89.19	89.26	30.92	30.01
August	143.33	142.57	21.95	21.95	10.5	10.4	89.53	89.68	31.85	30.94
September	143.15	142.73	21.87	21.92	10.2	10.3	89.86	89.94	31.42	30.82
October	143.63	143.37	22.17	21.98	9.8	10.0	90.21	90.43	31.25	30.96
November	143.88	144.01	22.02	22.07	9.7	10.1	90.64	90.78	31.22	31.16
December	144.16	144.60	21.46	22.03	9.9	10.2	91.07	91.19	31.63	31.38
January 1990	144.83	145.44	21.60	22.20	9.9	10.3	91.49	91.65	31.74	31.59
February	145.56	145.89	21.64	22.16	10.0	10.3	91.97	92.06	31.95	31.67
March	146.29	146.37	21.96	22.21	9.9	10.2	92.45	92.61	31.88	31.55
April	146.46	146.64	21.90	22.23	9.8	10.1	92.80	93.05	31.76	31.36
May	146.99	146.94	21.88	22.27	10.0	10.0	93.06	93.42	32.05	31.25
June	147.24	147.64	21.70	22.35	10.1	10.1	93.31	93.81	32.23	31.48

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	1.678	1.678	1.199	1.199	1.486	1.486	418.0	418.0	358.9	358.9
February	1.465	1.465	1.029	1.029	1.403	1.403	414.8	415.7	355.7	356.6
March	1.399	1.399	0.986	0.986	1.230	1.230	413.5	414.6	354.2	355.2
April	1.361	1.361	1.015	1.036	1.318	1.318	409.3	414.9	350.1	355.3
May	1.406	1.393*	1.021	1.026*	1.305	1.305*	409.0	413.6*	349.6	353.5*
June	1.412	1.407	0.970	1.025	1.317	1.311	409.2	412.0	349.1	351.5
July	1.354	1.402	0.968	1.028	1.267	1.301	408.3	410.4	347.2	349.6
August	1.342	1.417	0.963	1.046	1.246	1.314	407.2	409.4	345.7	348.4
September	1.327	1.427	0.958	1.051	1.229	1.326	406.0	410.6	344.1	348.6
October	1.335	1.437	0.952	1.043	1.238	1.338	408.6	410.2	345.7	347.6
November	1.340	1.418	0.947	1.026	1.245	1.325	410.8	410.3	347.0	347.1
December	1.343	1.434	0.943	1.035	1.249	1.339	412.9	411.8	348.1	347.8
January 1990	1.296	1.450	0.935	1.039	1.217	1.358	413.0	411.8	347.6	346.9
February	1.304	1.460	0.928	1.048	1.223	1.369	414.1	414.2	348.0	348.4
March	1.321	1.470	0.921	1.059	1.229	1.382	414.1	415.1	347.1	348.5
April	1.327	1.474	0.935	1.068	1.234	1.380	416.0	416.2	348.1	348.9
May	1.335	1.504	0.942	1.082	1.236	1.403	417.7	417.8	348.7	349.6
June	1.343	1.486	0.949	1.075	1.245	1.379	419.5	419.7	349.6	350.6

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	135.1	135.1	81.4	81.4	201.4	201.4
February	133.7	134.1	81.5	82.0	199.6	199.7
March	138.7	138.5	74.1	75.0	200.7	201.1
April	136.6	134.9	76.5	79.3	196.2	200.7
May	136.4	135.4*	76.9	79.0*	195.7	199.2*
June	136.6	135.0	77.3	79.5	195.3	197.5
July	137.0	134.3	77.9	78.8	193.4	197.3
August	137.4	134.0	78.4	79.3	191.4	196.1
September	137.7	133.6	78.8	79.4	189.5	197.6
October	138.5	133.1	79.5	80.1	190.6	197.0
November	139.3	133.4	80.0	80.0	191.5	196.9
December	140.0	133.2	80.5	80.6	192.4	198.0
January 1990	140.3	134.7	80.9	80.5	191.8	196.6
February	140.7	135.3	81.4	81.1	192.0	197.8
March	141.1	136.0	80.8	80.9	192.2	198.2
April	141.5	136.4	81.2	81.2	193.3	198.6
May	141.3	136.9	81.8	81.6	194.6	199.3
June	141.3	137.2	82.3	82.1	195.9	200.4

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	357.5	357.5	128.48	128.48	40.35	40.35	33.33	33.33
February	359.1	359.1	124.11	124.11	37.19	37.19	33.46	33.46
March	360.4	361.1	125.21	125.38	38.09	38.14	34.03	34.08
April	363.4	363.3	126.63	129.16	37.76	40.48	34.26	34.48
May	365.3	365.1*	126.94	128.77*	37.85	39.22*	34.39	34.63*
June	367.2	367.3	126.27	127.65	37.12	39.03	34.52	34.92
July	370.5	369.9	126.43	127.93	36.69	39.12	34.82	35.26
August	373.4	372.5	126.68	128.46	36.63	38.83	35.03	35.43
September	376.2	375.0	126.29	128.21	36.17	38.75	35.24	35.81
October	378.9	377.4	125.76	127.92	35.84	38.61	35.36	35.96
November	381.1	380.1	125.43	127.95	35.53	38.69	35.45	36.05
December	383.3	382.8	125.89	128.16	35.72	38.84	35.75	36.29
January 1990	385.2	384.5	126.14	127.43	35.88	38.06	35.66	36.15
February	387.4	386.3	126.35	127.02	36.17	37.43	35.87	36.52
March	389.6	388.2	126.12	127.28	35.93	37.56	36.02	36.69
April	390.9	390.8	125.56	126.93	35.76	37.06	36.05	36.60
May	391.3	391.3	124.85	126.56	35.49	36.84	36.01	36.29
June	391.7	393.1	125.18	126.84	35.64	37.05	35.99	36.43

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	759.8	759.8	8.73	8.73	140.8	140.8	84.3	84.3
February	763.6	763.1	8.40	8.40	140.4	140.4	83.9	83.9
March	765.6	765.6	8.50	8.45	140.5	140.5	83.7	83.7
April	772.3	769.5*	8.58	8.65	140.9	141.1	83.8	83.9
May	779.6	775.6	8.62	8.73*	141.2	140.9*	83.9	83.6*
June	786.8	781.9	8.62	8.70	141.5	141.2	84.0	83.7
July	789.9	787.3	8.55	8.75	142.7	141.5	84.4	83.7
August	793.0	793.2	8.61	8.77	143.9	141.7	84.8	83.6
September	795.9	797.4	8.67	8.82	145.1	142.0	85.2	83.6
October	801.4	800.6	8.62	8.76	144.7	142.3	84.7	83.6
November	808.9	804.3	8.70	8.75	144.3	142.6	84.3	83.7
December	816.3	808.9	8.78	8.81	144.6	142.8	84.4	83.7
January 1990	819.4	815.3	8.68	8.84	144.5	143.1	84.1	83.7
February	822.0	819.4	8.76	8.87	144.2	143.3	83.8	83.7
March	824.6	823.6	8.90	8.93	143.9	143.3	83.5	83.5
April	828.5	827.5	8.74	8.90	143.4	143.0	83.1	83.2
May	832.4	830.4	8.67	8.95	142.9	142.8	82.7	82.9
June	836.3	834.5	8.60	8.97	142.5	142.5	82.4	82.5

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	121.4	121.4	111.0	111.0	109.1	109.1	125.0	125.0
February	121.9	121.9	112.1	112.1	110.0	110.0	125.2	125.2
March	122.5	122.5	112.6	112.6	110.6	110.6	125.5	125.5
April	123.4	123.1	113.1	113.3	111.3	111.3	126.1	126.3
May	124.1	123.8	113.8	114.0	112.0	111.7	126.8	127.0
June	124.5	124.4*	114.2	114.3*	112.7	112.2	127.2	127.5
July	125.1	124.9	114.4	114.6	113.0	112.8	127.5	128.0
August	125.6	125.3	114.7	114.9	113.5	113.3	127.9	128.3
September	126.2	125.8	114.7	115.0	112.5	112.1	128.3	128.8
October	126.7	126.2	115.0	115.4	113.9	113.7	128.8	129.2
November	127.2	126.6	115.3	115.7	114.0	114.0	129.3	129.6
December	127.8	127.1	115.6	116.0	114.2	114.3	129.2	130.0
January 1990	128.2	127.6	116.0	116.3	114.8	114.8	130.4	130.5
February	128.5	128.0	116.5	116.6	115.6	115.2	131.0	130.9
March	128.9	128.5	116.8	117.0	116.4	115.7	131.6	131.3
April	129.5	129.1	117.2	117.3	116.8	116.2	132.1	131.8
May	130.2	129.6	117.6	117.7	117.1	116.7	132.7	132.3
June	130.9	130.2	118.1	118.1	117.4	117.1	133.3	132.8

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	127.9	127.8	112.0	112.0	119.4	119.4	138.9	138.8	116.4	116.4
February	128.1	128.0	111.7	111.5	119.5	119.5	139.2	139.1	116.6	116.6
March	128.9	128.9	111.3	111.1	121.0	121.0	139.9	139.9	116.7	116.7
April	129.6	129.8	111.6	111.5	122.2	122.8	140.5	140.4	116.9	116.8
May	130.2	130.5*	111.8	111.5*	123.2	123.6	141.1	141.2	117.1	117.0
June	130.8	131.1	112.0	111.8	123.6	124.1	141.7	141.9	117.3	117.2
July	131.3	131.6	112.4	112.1	123.8	124.4	142.3	142.5	117.6	117.4
August	131.7	132.0	112.7	112.4	124.0	124.7	142.9	143.1	117.8	117.5
September	132.1	132.5	113.0	112.6	124.2	125.0	143.5	143.7	118.0	117.8
October	132.7	132.9	113.2	112.8	124.8	125.3	144.2	144.3	118.2	118.0
November	133.3	133.3	113.4	113.0	125.3	125.5	144.9	144.9	118.4	118.2
December	133.9	133.8	113.4	113.3	125.9	125.9	145.6	145.5	118.6	118.4
January 1990	134.4	134.3	113.7	113.6	126.3	126.3	146.2	146.1	118.8	118.7
February	134.8	134.7	114.0	113.9	126.6	126.6	146.9	146.7	119.0	118.9
March	135.3	135.2	114.3	114.1	127.0	127.0	147.5	147.3	119.3	119.1
April	135.9	135.8	114.4	114.3	127.7	127.5	148.3	147.9	119.5	119.3
May	136.6	136.3	114.5	114.5	128.4	128.1	149.0	148.5	119.8	119.5
June	137.2	136.9	114.4	114.6	129.0	128.6	149.7	149.2	120.0	119.7

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators	Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)	
	Fore.	C.E.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	-8.68	-8.68	145.9	5109	5101	4087	4087	-26.7	-26.7
February	-9.82	-9.82	145.4	5114	5103	4085	4076	-39.6	-39.6
March	-8.86	-8.86	144.6	5127	5111	4085	4073	-41.7	-42.2
April	-9.73	-9.78*	145.7	5163	5156	4094	4082	-40.2	-45.3
May	-9.92	-10.04	144.8*	5197	5183	4099	4081	-28.6	-38.4
June	-9.42	-9.93	145.1	5231	5218	4112	4093	-23.5	-31.3
July	-10.21	-9.65	144.5	5256	5243	4122	4096	-25.5	-28.4
August	-10.88	-9.36	144.2	5288	5275	4134	4111	-28.0	-23.2
September	-10.83	-9.07	144.0	5320	5301	4147	4116	-29.9	-23.1
October	-10.62	-9.26	143.2	5341	5328	4147	4124	-28.6	-16.9
November	-10.25	-9.55	143.5	5359	5352	4145	4130	-27.4	-17.3
December	-9.56	-9.67	143.6	5379	5375	4147	4135	-26.3	-17.4
January 1990	-9.93	-10.01	142.9	5405	5401	4145	4139	-30.2	-19.4
February	-10.58	-10.25	142.6	5442	5428	4154	4147	-32.4	-21.8
March	-10.86	-10.43	143.1	5480	5450	4164	4151	-34.6	-24.3
April	-9.85	-10.26	143.0	5493	5473	4158	4153	-31.1	-25.6
May	-9.52	-10.42	143.2	5502	5494	4146	4153	-29.9	-26.1
June	-9.37	-10.53	143.0	5508	5515	4132	4153	-28.7	-26.0

	Currency Index		Adjusted Profits		30-Year Government Bonds		New York Composite	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	95.12	95.12	210.5	193.6	8.93	8.93	160.40	160.40
February	95.77	95.77	163.4	163.9	9.01	9.01	165.08	165.08
March	96.99	96.99	156.5	155.5	9.17	9.17	164.60	164.60
April	97.23	97.24	165.9	159.8	9.32	9.03	165.13	170.34
May	97.95	100.81	178.2	154.7	9.40	8.78*	166.29	175.56
June	98.56	100.93*	180.3	169.2	9.36	8.37	164.21	182.26*
July	97.43	98.85	177.4	173.3	9.30	8.49	156.82	184.04
August	95.82	98.21	175.7	184.1	9.25	8.43	153.54	186.90
September	94.16	95.43	174.0	186.3	9.21	8.27	150.26	183.11
October	93.09	95.62	173.1	189.2	9.18	8.46	148.29	181.78
November	91.70	96.43	172.4	191.4	9.12	8.59	148.86	181.12
December	90.36	96.81	171.9	193.7	9.15	8.50	149.30	185.23
January 1990	91.25	95.01	169.8	192.5	9.06	8.36	145.14	187.17
February	94.46	93.28	169.1	194.8	9.01	8.27	140.53	191.46
March	94.05	92.29	168.2	195.2	8.92	8.16	138.27	194.44
April	91.02	90.85	168.5	191.6	8.78	8.09	139.45	192.51
May	89.63	91.65	166.1	186.2	8.73	8.05	140.25	188.01
June	88.26	93.46	163.7	181.4	8.70	7.98	141.06	184.77

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	287.9	287.9	786.3	786.3	3065.9	3065.6	9.12	9.12	8.36	8.36
February	287.5	287.5	787.4	787.4	3069.7	3069.7	9.36	9.36	8.55	8.55
March	289.4	289.3	786.3	786.3	3079.5	3079.5	9.85	9.85	8.85	8.85
April	290.3	289.0	782.9	782.9	3090.4	3081.1	9.84	9.84	8.65	8.65
May	292.9	289.8*	785.3	774.4*	3101.3	3071.7*	9.83	9.77*	8.74	8.33*
June	295.5	291.1	787.2	777.2	3112.2	3086.8	9.83	9.53	8.83	8.16
July	297.3	293.2	792.5	783.7	3134.6	3105.6	10.20	9.50	8.89	8.09
August	298.1	294.7	798.9	789.2	3158.6	3122.3	10.23	9.26	8.86	7.94
September	298.9	296.5	804.9	794.9	3182.5	3140.9	10.26	9.21	8.83	7.96
October	300.4	298.2	808.6	800.1	3195.6	3157.4	10.32	9.26	8.81	7.92
November	302.8	300.0	812.4	805.2	3213.2	3177.5	10.29	9.30	8.82	7.99
December	305.2	301.7	816.2	810.1	3231.0	3196.8	10.26	9.33	8.80	8.03
January 1990	306.9	303.4	821.7	815.5	3250.4	3214.1	10.01	9.27	8.73	7.94
February	307.8	305.1	828.6	820.4	3270.3	3233.4	9.96	9.23	8.62	7.91
March	308.7	306.8	835.4	825.9	3290.1	3255.1	9.84	9.15	8.51	7.78
April	310.5	308.2	840.3	829.1	3314.3	3273.7	9.56	8.86	8.47	7.61
May	312.5	309.7	845.0	833.1	3326.1	3289.5	9.55	8.75	8.41	7.52
June	314.4	311.3	849.8	836.8	3338.0	3306.1	9.56	8.62	8.36	7.40

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1989	9.62	9.62	7.35	7.35	9.04	9.04	9.20	9.20	10.50	10.50
February	9.64	9.64	7.44	7.44	9.37	9.37	9.51	9.51	10.93	10.93
March	9.80	9.80	7.59	7.59	9.95	9.95	10.09	10.09	11.50	11.50
April	9.79	9.79	7.49	7.49	9.81	9.81	9.94	9.94	11.50	11.50*
May	9.75	9.54*	7.45	7.22*	9.80	9.56*	9.93	9.68*	11.50	11.50
June	9.83	9.32	7.51	6.94	9.86	9.34	9.97	9.47	11.50	11.14
July	9.89	9.17	7.58	6.73	10.17	9.30	10.26	9.41	11.68	11.00
August	9.95	9.05	7.64	6.71	10.26	9.16	10.35	9.29	12.00	10.83
September	9.99	9.11	7.68	6.75	10.23	9.20	10.30	9.30	12.00	10.50
October	9.90	9.20	7.62	6.83	10.30	9.14	10.41	9.24	12.00	10.50
November	9.83	9.27	7.53	6.89	10.25	9.18	10.37	9.31	12.00	10.50
December	9.76	9.25	7.47	6.90	10.22	9.25	10.33	9.38	12.00	10.50
January 1990	9.70	9.22	7.40	6.87	10.07	9.21	10.22	9.34	12.00	10.50
February	9.67	9.07	7.38	6.73	9.98	9.14	10.09	9.16	11.96	10.50
March	9.64	8.98	7.35	6.65	9.88	9.05	10.05	9.08	11.50	10.50
April	9.56	8.86	7.26	6.54	9.59	8.74	9.76	8.87	11.50	10.50
May	9.53	8.73	7.20	6.49	9.53	8.69	9.71	8.81	11.28	10.42
June	9.50	8.66	7.18	6.38	9.50	8.56	9.65	8.69	11.00	10.00

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